

Message Text

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TAGS: ETRD, EIND, EEC, US

SUBJECT: US-EC DISCUSSIONS ON INDUSTRIAL POLICY

REF: EC BRUSSELS 7897

1. SUMMARY: ON OCTOBER 15-16 A US DELEGATION HEADED BY
DEPUTY ASSISTANT SECRETARY OF COMMERCE FOX MET WITH
REPRESENTATIVES OF THE EC COMMISSION FOR A FRUITFUL AND
DETAILED DISCUSSION OF INDUSTRIAL POLICY PROBLEMS. THE
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U.S. DELEGATION EMPHASIZED THE NEED FOR EARLY CONCLUSION

OF INTERNATIONAL AGREEMENTS IN THE MTN ON GOVERNMENT PROCUREMENT, STANDARDS AND SUBSIDIES. THOUGH AGREEING ON THE NEED FOR EARLY PROGRESS, THE COMMISSION WAS HESITANT TO COMMIT ITSELF ON TIMING FOR SPECIFIC EC AGREEMENTS, AND DUBIOUS ABOUT RAPID CONCLUSION OF A STANDARDS CODE. THEY DID AGREE TO CONSIDER COMMENTS BY U.S. FIRMS AND GOVERNMENT BODIES ON SPECIFIC EC STANDARDS PROPOSALS. EC REPRESENTATIVES EXPLAINED THEIR SECTORAL INDUSTRY PROGRAMS (AIRCRAFT, COMPUTERS, ETC.) AND THE U.S. SIDE NOTED THEIR POSSIBLE FOREIGN TRADE IMPACT. EACH SIDE URGED THAT THE OTHER REFRAIN FROM CREATING ANY NEW NON-TARIFF BARRIERS TO INTERNATIONAL TRADE. END SUMMARY.

2. FOLLOWING UP ON AN AGREEMENT AT THE JUNE 1974 US/EC CONSULTATIONS TO HOLD A DETAILED DISCUSSION ON INDUSTRIAL POLICY, DEPUTY ASSISTANT SECRETARY FOX (COMMERCE) AND REPRESENTATIVES FROM STATE, STR, TREASURY, LABOR AND THE MISSION MET ON OCTOBER 15-16 WITH REPRESENTATIVES OF THE EC COMMISSION. THE EC GROUP WAS LED BY BRAUN, DIRECTOR GENERAL FOR INTERNAL MARKET AFFAIRS, AND LOEFF, ACTING DIRECTOR GENERAL FOR INDUSTRIAL AFFAIRS. DETAILS OF THE MAJOR POINTS DISCUSSED FOLLOW:

3. AIRCRAFT SECTOR. THE COMMISSION REPRESENTATIVES DESCRIBED THE CURRENT STATUS OF THEIR PROPOSAL FOR A COUNCIL RESOLUTION TO ENCOURAGE COOPERATION AMONG EC AIRCRAFT BUILDERS. THE ONLY REMAINING OBSTACLE IS THE UK RENEGOTIAITION DELAY. COMMISSION REPRESENTATIVES FIRMLY DENIED ANY COMMUNITY INTENTION TO DIRECT NATIONAL AIRLINES' PURCHASING POLICIES BUT ADMITTED ENCOURAGING A CLOSE WORKING RELATIONSHIP BETWEEN EUROPEAN AIRLINES AND EUROPEAN AIRCRAFT COMPANIES. DURING A DISCUSSION OF R & D SUBSIDIES, FOX POINTED OUT THAT LARGE SCALE SUBSIDIES ON EITHER SIDE AMOUNTED TO UNECONOMIC AND HARMFUL ATTEMPTS TO EXPORT UNEMPLOYMENT IN THIS SECTOR. BOTH SIDES AGREED THAT PROGRESS IS NEEDED TO HARMONIZE EXPORT TERMS. AND THAT THE MTN SHOULD AIM AT ZERO DUTIES

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FOR ALL AIRCRAFT. FOX SAID THE U.S. INDUSTRY FAVORED A ZERO DUTY SECTORAL PACKAGE WHICH WOULD INCLUDE ALL MAJOR NTB'S AFFECTING COMPETITION AND NOTABLE LIMITATION OF THE CURRENT TREND TOWARD PRODUCTION OFF-SET. THE EC EXPRESSED INTEREST IN A SECTORAL APPROACH.

4. COMPUTER SECTOR. THE EC REPS SAID THE COMMISSION'S

PROPOSAL WAS INTENDED TO (A) INCREASE MEMBER STATE COLLABORATION IN THE AREAS OF COMMON COMPUTER APPLICATIONS, PROCUREMENT AND STANDARDS, AND (B) TO SUPPORT EUROPEAN-BASED COMPUTER FIRMS. THEY EMPHASIZED THE PROBLEMS CREATED BY THE DOMINANT ROLE OF IBM AND NOTED THE CURRENT COMMISSION ANTI-TRUST INVESTIGATION OF IBM'S ACTIVITIES. THEY STATED THAT SOME FORM OF DIRECTED PROCUREMENT WILL DOUBTLESSLY BE NECESSARY FOR THE DEVELOPMENT OF EUROPEAN-BASED COMPANIES FOR A CERTAIN PERIOD OF TIME BUT INSISTED THAT SUCH PROCUREMENT PREFERENCES ON A COMMUNITY LEVEL WOULD TEND TO REDUCE THE DEGREE OF EXISTING NATIONAL PREFERENCE. FOX WARNED THAT THIS SECTOR WAS MORE SUSCEPTIBLE THAN MOST TO A MISALLOCATION OF RESOURCES AND SAID THAT THE IBM SITUATION SHOULD NOT BE USED AS AN EXCUSE FOR INCREASED SUBSIDIES OR DIRECTED PROCUREMENT POLICIES. ALTHOUGH LITTLE COMMON GROUND EMERGED FROM THE DISCUSSION, THE COMMISSION EXPRESSED AN INTEREST IN CONSULTING WITH US ON DATA PROCESSING STANDARDS.

5. OTHER SECTORS. THE EC REPRESENTATIVES DESCRIBED IN A GENERAL FASHION THEIR PLANS FOR THE TELECOMMUNICATIONS, SHIPBUILDING AND PULP AND PAPER SECTORS. THE COMMISSION HOPES TO OPEN PROCUREMENT IN THE COMMUNICATIONS EQUIPMENT FIELD, WHICH IS NOW ALMOST TOTALLY RESTRICTED BUT STRESSED THAT THIS WOULD BE EXTREMELY DIFFICULT AND COULD ONLY BE DONE OVER A LONG PERIOD OF TIME. THEY NOTED THAT OPENING THE MARKET WOULD BE A BENEFIT TO ITT. FOX POINTED OUT THAT THE U.S. INTEREST IS NOT FOCUSED ON MARKET ACCESS FOR U.S. SUBSIDIARIES LOCATED IN EUROPE AND EMPHASIZED THE NEED FOR OPENNESS TO U.S. EXPORTS
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AND TO THOSE OF OTHER NON-EC MEMBERS.

6. THE US DELEGATION (1) ASSURED THE COMMISSION REPRESENTATIVES THAT THE ADMINISTRATION OPPOSES TANKER FLAG DISCRIMINATION AND (2) PROMISED TO RAISE IN WASHINGTON THE QUESTION OF U.S. PARTICIPATION IN THE OECD WORKING GROUP NO. 6 ON FORECASTING OF WORLD SHIPPING TRANSPORT NEEDS. THE COMMISSION REPS SAID THAT EC PULP AND PAPER IMPORTS FROM THE U.S. WOULD CONTINUE TO GROW BUT THAT--AFTER THE XXIV:6 NEGOTIATIONS--THIS WOULD BE A SENSITIVE POINT IN THE MTN. FOX SAID THAT THE U.S. OBJECTIVE IN THE MTN WOULD BE TO GAIN THE SAME DEGREE OF ACCESS TO THE EC AS THE SCANDINAVIAN COUNTRIES. IN RESPONSE TO EC QUESTIONS, FOX EXPLAINED THAT THE COST OF

LIVING COUNCIL EXPORT RESTRICTIONS ON PULP AND PAPER HAVE LAPSED AND STATED THAT THE U.S. WOULD CONSULT WITH THE EC IN ADVANCE TO THE MAXIMUM EXTENT POSSIBLE IN THE SHORT SUPPLY AREA. IN RESPONSE TO AN EC REQUEST, FOX ALSO SAID THAT THE WOULD INQUIRE WITH REGARD TO THE POSSIBILITIES FOR CONSULTATION ON THE MEDIUM TERM OUTLOOK FOR THE DEMAND OF FERROUS SCRAP.

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7. NTB ISSUES. WITH RESPECT TO EACH OF THE THREE NTB ISSUES (GOVERNMENT PROCUREMENT, SUBSIDIES AND

STANDARDS) THE U.S. DEL STRESSED THE DESIRABILITY OF MOVING AS RAPIDLY AS POSSIBLE TOWARD THE CONCLUSION OF SELF-BALANCING, MULTI-LATERAL AGREEMENTS WITHIN THE TIME FRAME OF THE MTN. THEY EMPHASIZED THE DANGERS INHERENT IN DELAYING IMPLEMENTATION UNTIL THE END OF THE NEGOTIATING PERIOD. DURING AMBASSAODR GREENWALD'S LUNCHEON FOR THE TWO DELEGATION THE TECHNIQUES FOR HANDLING NTB'S IN THE MTN WERE LIMITED OFFICIAL USE

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DISCUSSED. HIJZEN SAID THAT IT WOULD BE A SERIOUS MISTAKE TO TRY TO DECIDE BEFOREHAND WHICH SUBJECTS COULD BE SETTLED PROMPTLY IN SEPARATE PACKAGES AND WHICH WOULD HAVE TO WAIT UNTIL FINAL SETTLEMENT. HE SAID THAT AFTER A SELF-BALANCING AGREEMENT WAS REACHED THERE MIGHT BE SUFFICIENT INTEREST TO ADOPT IT BEFORE A FINAL SETTLEMENT.

8. GOVERNMENT PROCUREMENT. THE PARTICIPANTS NOTED THE GROWING TENDENCY TOWARD A PROTECTIONIST OR PREFERENTIAL POINT OF VIEW IN GOVENEMENT PROCUREMENT. THE EC COMMISSION REPRESENTATIVES INDICATED THAT THE COMMISSION'S GOVERNMENT PROCUREMENT PROPOSAL WOULD OPEN UP PUBLIC MARKETS TO ALL GOODS PRODUCED IN THE EC BUT STATED CANDIDLY THAT THE EC COUNCIL WOULD NOT EXTEND THE BENEFITS OF OPEN PUBLIC PROCUREMENT MARKETS TO THIRD COUNTRIES WITHOUT RECIPROCITY. FOX REGRETTED THAT AS A NEGOTIATING PLOY THE COMMISSION'S GOVERNMENT PROCUREMENT PROPOSALS NOW CONTAIN NO REFERENCE TO OPENING OF THE MARKET FOR THIRD-COUNTRY PRODUCTS, SAYING THAT ADAPTION OF SUCH A PROPOSAL COULD BE RETROGRESSIVE FROM EARLIER COMMISSION PRVISIONS. THE PARTICIPANTS CONCLUDED THE LONG DISCUSSION AGREEING THAT THE BASIS FOR A GOVERNMENT PROCUREMENT CODE DOES EXIST IN THE OECD EXERCISE. BRAUN SAID THAT THE AGREEMENT WOULD HAVE TO INCLUDE UNDERTAKINGS BY THE U.S. (1) TO EXTEND ITS APPLICATION TO U.S. STATES, (2) TO ELIMINATEE OR SUBSTANTIALLY REDUCE THE BUY AMERICAN DIFFERENTIALS, AND (3) TO EXCLUDE CIVILIAN-TYPE MATERIAL FROM THE 50 PERCENT DOD DIFFERENTIAL. THE EC REPRESENTATIVES STATED THAT IT WOULD NOT BE POSSIBLE TO INCLUDE AIRCRAFT, COMPUTERS, ELECTRICAL GENERATING EQUIPMENT AND PROBABLY TELECOMMUNICATIONS IN THE OECD CODE, BUT EXPRESSED INTEREST IN THE POSSIBILITY THAT CERTAIN SECTORS BE SUBJECT TO SECTORAL TREATMENT IN THE MTN. THE EC AGREED ON THE IMPORTANCE OF MTN AGREEMENT IN THE GOVERNMENT PROCUREMENT FIELD BUT URGED REALISTIC GOALS AND A FLEXIBLE APPROACH.

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9. REGIONAL AID SUBSIDIES. THE EC REPRESENTATIVES DESCRIBED THE STATUS OF THEIR REGIONAL AIDS PROGRAM. BRIEFLY, THERE HAS BEEN NO FINAL DECISION TO ACTIVATE THEIR REGIONAL AID FUND AND NO DECISION TO COORDINATE REGIONAL POLICIES. THEY HAVE AGREED TO LIMIT PERMISSIBLE REGIONAL AIDS IN THE CENTRAL AREA OF THE EC TO 20 PERCENT OF THE ENT INVESTMENT. THE US DELEGATES EXPRESSED CONCERN THAT THE EC MIGHT EMBARK ON A PROGRAM WHICH WOULD NOT TAKE INTO ACCOUNT THE FOREIGN TRADE IMPACT OF THE REGOINAL AIDS. THE MICHELIN CASE WAS DISCUSSED IN THIS CONTEXT. BOTH SIDES AGREED THAT REGIONAL AIDS ARE UNACCEPTABLE WHENEVER THEY ARE GEARED TO A SPECIFIC LEVEL OF EXPORT PERFORMANCE. THE US DEL PROPOSED THAT CRITIERIA FOR REGIONAL AIDS COULD BE DEVELOPED WITHIN THE CONTEXT OF THE MTN SUBSIDY- COUNTERVAILING DUTY EXERCISE. EC (ABBOTT) INDICATED WILLINGNESS TO COOPERATE IN GATT WORK ON DOMESTIC SUBSIDIES WHERE IT CAN BE SHOWN THAT THERE IS A SIGNIFICANT TRADE IMPACT.

10 STANDARDS. THE PARTICIPANTS COMPARED ND EXCHANGED VIEWS ON THEIR RESPECTIVE STANDARDS MAKING SYSTEMS THE EC REPRESENTATIVES, WERE CLEAR IN THEIR REFUSAL TO CONSIDER A FEDERAL REGISTER SYSTEM WITH OPEN COMMENT AND HEARING PROCEDURE SIMILAR TO THAT IN THE U.S. THE COMMISSION IS, HOWEVER, WILLING TO RECEIVE AND CONSIDER COMMENTS ON ANY OF ITS STANDARDS PROPOSALS THOUGH IT IS RELUCTANT TO INVITE COMMENT FOR FEAR OF BEING FLOODED. THE EC REPRESENTATIVES RESISTED THE IDEA OF ESTABLISHING BILATERAL AD HOC STANDARDS COMMITTEES OR ANY INSTITUTIONALIZED FRAMEWORK FOR CONSULTATION ON STANDARDS. SEVERAL OTHER EUROPEAN COUNTRIES HAVE MADE SIMILAR REQUESTS AND HAVE BEEN TURNED DOWN. THE COMMISSION EXPRESSED WILLINGNESS TO RECEIVE AND CONSIDER COMMENTS FROM U.S. GOVERNMENT, TRADE ASSOCIATIONS, AND BUSINESS FIRMS. SUCH COMMENTS SHOULD BE SUBMITTED AS SOON AS POSSIBLE AFTER THE PUBLICATION OF A PROPOSED DIRECTIVE IN THE EC OFFICIAL JOURNAL. THEY WOULD BE EXAMINED DURING THE PERIOD WHEN THE COMMISSION IS REVIEWING THE PROPOSALS, BASED ON

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COMMENTS FROM THE ECONOMIC AND SOUCIAL COMMITTEE, THE PARLIAMENT AND OTHER SOURCES. THE U.S. SIDE THOUGHT THAT THE U.S. GOVERNMENT SHOULD ASSIST IN INFORMING U.S. EXPORTERS OF EC STANDARDS PROPOSALS AND IN ASSURING THAT THEIR VIEWS ARE MADE KNOWN TO THE COMMISSION.

111. STANDARDS CODE. THE EC REPRESENTATIVES HESITATED IN MAKING A COMMITMENT TO THE EARLY CONCLUSION OF AN AGREEMENT, ALTHOUGH IT WAS NOTED THAT A DRAFT IS IN A VERY ADVANCED STAGE, THE DISCUSSION CONCLUDED WITH AN EXCHANGE OF INFORMATION ABOUT SPECIFIC STANDARDS PROBLEMS. WITH RESPECT TO LOW VOLTAGE ELECTRICAL EQUIPMENT STANDARDS AND OTHER STANDARDS GENERALLY, THE EC REPS SAID THAT U.S. MANUFACTURERS' CERTIFICATION ACCEPTED BY ONE MEMBER STATE WOULD BE ACCEPTED BY ALL MEMBER STATES. THIS PROCEDURE MIGHT EVENTUALLY BE REPLACED BY A RECIPROCAL BILATERAL ARRANGEMENT WHICH WOULD GIVE THE U.S. JURIDICAL STANDING TO COMPLAIN IF THE U.S. CERTIFICATION WAS NOT ACCEPTED.

12. INVESTMENT. THE U.S. NOTED ITS INTEREST IN THE OECD EXERCISE DEALING WITH THE NATIONAL TREATMENT OF INVESTMENT. THE EC DESCRIBED ITS INTERNAL PROPOSALS ON MNC'S AS NON-DISCRIMINATORY AND NOTED THAT THEY MAY INCLUDE REGULATION IN THE FIELDS OF TAXATION AND TRANSFER PRICES. U.S. AGREED THESE MAY BE POSSIBLE AREAS FOR COOPERATION IN OECD. THE EC REPRESENTATIVES DESCRIBED THE STATUS OF THE EUPOPEAN COMPANY LAW PROPOSALAND HARMONIZATION OF MEMBER STATE COMPANY LAW PROPOSALS. THE DISCUSSION FOCUSED ON THE TWO-TIER COMPANY STRUCTURE WITH LABOR PARTICIPATION ON THE SUPERVISORY BOARD. BRAUN WAS AWARE OF THE STAND BEING TAKEN BY THE U.S. CHAMBER OF COMMERCE IN GERMANY. HE CAUTIONED PRODENCE WITH RESPECT TO OUTSIDE INTERVENTION IN THIS SENSITIVE AREA THAT COULD LEAD TO A LOSS OF GOOD WILL WHICH WOULD NEVER BE FULLY RECOVERED.

13. THE EC EXPRESSED A PARTICULAR INTEREST IN THE LIMITED OFFICIAL USE

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CONSUMER PRODUCT SAFETY COMMISSION. THEY WERE INVITED TO LET US KNOW IF THEY WOULD LIKE TO SEND EC OFFICIALS TO WASHINGTON TO SPEAK WITH THE PRODUCT SAFETY COMMISSION OFFICIALS. GREENWALD

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